## Country Operations

**Scott Sinclair**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Refined Fuels</strong></td>
<td>$6,927</td>
<td>$145,153</td>
<td>$35,795</td>
</tr>
<tr>
<td><strong>Lubricants</strong></td>
<td>$1,172</td>
<td>$567</td>
<td>$1,613</td>
</tr>
<tr>
<td><strong>Propane</strong></td>
<td>$1,536</td>
<td>$(301)</td>
<td>$583</td>
</tr>
<tr>
<td><strong>Equipment</strong></td>
<td>$237</td>
<td>$322</td>
<td>$755</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>$375</td>
<td>$210</td>
<td>$366</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td>$10,247</td>
<td>$145,951</td>
<td>$39,112</td>
</tr>
<tr>
<td><strong>Agronomy</strong></td>
<td>$(8,983)</td>
<td>$(8,432)</td>
<td>$(1,375)</td>
</tr>
<tr>
<td><strong>Country Operations</strong></td>
<td>$4,799</td>
<td>$15,047</td>
<td>$8,531</td>
</tr>
<tr>
<td><strong>Grain Marketing</strong></td>
<td>$4,272</td>
<td>$10,076</td>
<td>$7,066</td>
</tr>
<tr>
<td><strong>Ag Business</strong></td>
<td>$88</td>
<td>$16,691</td>
<td>$14,222</td>
</tr>
<tr>
<td><strong>Oilseed Processing</strong></td>
<td>$537</td>
<td>$3,798</td>
<td>$(125)</td>
</tr>
<tr>
<td><strong>Wheat Milling</strong></td>
<td>$(802)</td>
<td>$(805)</td>
<td>$(785)</td>
</tr>
<tr>
<td><strong>US BioEnergy</strong></td>
<td>$0</td>
<td>$(82)</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Ventura Foods</strong></td>
<td>$7,301</td>
<td>$6,967</td>
<td>$8,530</td>
</tr>
<tr>
<td><strong>Processing</strong></td>
<td>$7,036</td>
<td>$9,878</td>
<td>$7,620</td>
</tr>
<tr>
<td><strong>Business Solutions</strong></td>
<td>$2,235</td>
<td>$2,223</td>
<td>$1,173</td>
</tr>
<tr>
<td><strong>Mexican Foods</strong></td>
<td>$0</td>
<td>$341</td>
<td>$(3,838)</td>
</tr>
<tr>
<td><strong>Investment Impairment</strong></td>
<td>$0</td>
<td>$0</td>
<td>$(35,000)</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>$(250)</td>
<td>$(239)</td>
<td>$(266)</td>
</tr>
<tr>
<td><strong>Pretax Income</strong></td>
<td>$19,356</td>
<td>$174,845</td>
<td>$23,023</td>
</tr>
<tr>
<td><strong>Income Taxes</strong></td>
<td>$(2,565)</td>
<td>$(20,611)</td>
<td>$(5,027)</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$16,791</td>
<td>$154,234</td>
<td>$17,996</td>
</tr>
</tbody>
</table>

### CHS Inc.

**Income Summary**

September 1 through November 30

(000's Omitted)

**Country Operations**

- 300+ company-owned locations providing producers with a full range of inputs, energy, farm supply, grain marketing, transportation and financing.

**CHS Nutrition**

- Under the Payback® brand, offers custom-formulated animal feed that delivers profitable results.

**CHS Sunflower**

- The leading processor of confectionary sunflower seeds and a worldwide distributor of sunflower kernel and in-shell products for use as baking ingredients and in snacks.
Country Operations

- 3,173 Employees
- 9 States
- 56 Business Units
- 208 Grain Operations
  - 27 Grain Shuttles
- 168 Agronomy Operations
  - 7 Fertilizer Shuttles
- 37 Retail Petroleum Sites
- 77 Bulk Refined Fuel Plants
- 64 Propane Plants
- 11 Feed Plants

29 Business Units w/ Board of Directors
16 Business Units w/o Board of Directors
1 Sunflower Operation
10 Joint Ventures/LLC’s

Growth Strategy

- Acquisitions
- Partnerships - Joint Ventures
- Business/Marketing Relationships
- Mergers
Grow to Create Value

• Make sure you have alignment of goals.
• Value is a reflection of ability to generate positive cash flow.

Defining Value

<table>
<thead>
<tr>
<th>Conventional Approach</th>
<th>Value Driven Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Historical focus</td>
<td>• Forward Focus</td>
</tr>
<tr>
<td>• Book value driven</td>
<td>• Cash Flow Driven</td>
</tr>
</tbody>
</table>

How do we decide to partner with another coop?

• Request partnership with CHS

• Financial Condition
  – Working Capital
  – Term Debt
  – Book Value of Fixed Assets
  – Patrons Equity

• Core Business Functions
  – Grain, Agronomy, Energy, Feed
  – Services

• Trade-area
  – Potential Development
  – Production
  – Other Players
  – Processing Operations
  – Shuttle Operations

• Management
  – Performance
  – Organization Structure
  – Alignment of Goals
Financial Analysis

• Balance Sheet - Strong vs. Stressed

• Income - Strong vs. Stressed
  - History
  - Trade Area
  - Management
  - Potential

Country Operations Imperative When Entering a Merger:

• Creating a shared focus and definition of success.

• Protect the business unit patronage pool.

What is “Regionalization”?

Definition:
A local cooperative that merges into CHS and has a producer board providing governance over local operations.
Regionalization History

- Began in 1993 at Dickinson, ND
- The local coop and CHS both operated assets in the trade-area
- Identified need to gain efficiencies with human, physical & financial resources
- Local & regional governance
- Today- 29 business units organized as a "Regionalization"

29 Regionalized Businesses
50 Merged Locations

Regionalized Business Units

- 29 Regions
- 150 Grain Operations
- 127 Grain Shuttles
- 117 Agronomy Operations
- 7 Petroleum Sites
- 67 Refined Fuel Plants
- 16 Propane Plants
- 10 Feed Plants
Merger: Local Co-op and CHS

- Local Co-op merges with CHS.
- Merger/transaction agreement provides:
  - Identity.
  - Elected Producer Board.
  - Future producer patronage based on the new regionalized operations earnings.
  - Percent in cash of earnings determined by CHS Board.
  - The regionalized operations equity is eligible for redemption consistent with CHS Equity Retirement Program.
  - Future equity retirement policy determined by CHS Board.

Producer Board Responsibilities

- Approve capital expenditures annually based on a business plan and division approval.
- Approve the sale of fixed assets and the closure of locations.
- Approve acquisitions or unification proposals with regional area cooperatives or agri-business.
- Major expansion projects, sale of fixed assets, closure of facilities, acquisitions, and unification proposals require joint Producer Board and CHS Board review & approval.

Producer Board Responsibilities

- Provide performance review of management.
- Provide for member input.
  - Local Annual Meeting Required.
- Review monthly financial statements and operations to evaluate performance.
- Provide input, direction, and approval of the business plan.
- Review and submit a proposal for approval to the CHS Board concerning appropriate Producer Board representation, including qualifications, size, geographic distribution, nomination process, and election procedure.
Concerns of Regionalization
A local cooperative, board of directors, and management viewpoint

- The cooperative system perceives that the operation is selling out.
- Profits of the unit may be offset within CHS prior to patronage to local members.
- Some of the ultimate decision making authority of the local unit is taken away.
- Local cooperative will be financially bound by the profitability of CHS and directions that CHS may make now and in the future.
- Equity retirement is under CHS control.

Advantages of Regionalization
A local cooperative, board of directors, and management viewpoint

- Long-term financial stability - ability to spread risk over larger geographic area and more diversified operations.
- Equity retirement and protection.
- Ability to maintain local direction and focus via Producer Board
- Financial ability to meet the changing needs of members and customers of the cooperative.
- Enable management to focus resources on operations.
Advantages of Regionalization
A local cooperative, board of directors, and management viewpoint

• Ability for management to receive "bottom line" driven support in areas of:
  ü Grain Marketing
  ü Farm Supply
  ü Risk Management
  ü Insurance
  ü Loss Control
  ü Business Planning
  ü Financing

• Operational losses will not be carried forward into future years.

• Create a diversified Cooperative.
  - Improve marketing programs & services, as well as reduce duplicated operational costs.

Why Merge?

• 50 cooperatives have chosen to merge over the last 10 years.
• Keep cooperative system alive.
• Local control retained.
• Build economic viability.
• Retention of most employees.

Summary

• Brief description
• Multiple avenues for businesses to consider
• If you or your coop would like to learn more, please contact us:
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  John.McEnroe@chsinc.com
  Scott Sinclair  651-355-6353
  Scott.Sinclair@chsinc.com
Thank you